

**Eaton Intermediate School District
Charlotte, Michigan**

FINANCIAL STATEMENTS

June 30, 2008

Eaton Intermediate School District

Charlotte, Michigan

BOARD OF EDUCATION

June 30, 2008

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Eaton Intermediate School District

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Eaton Intermediate School District
Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eaton Intermediate School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Eaton Intermediate School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

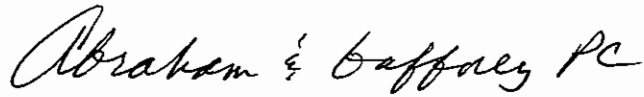
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Eaton Intermediate School District as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2008, on our consideration of Eaton Intermediate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Eaton Intermediate School District's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Abraham & Gaffney PC".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 10, 2008



EATON INTERMEDIATE SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2008

As management of Eaton Intermediate School District, we offer readers of the Eaton Intermediate School District's financial statements this narrative overview and analysis of the financial activities of Eaton Intermediate School District for the fiscal year ended June 30, 2008. All amounts are expressed in actual dollars.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenues and expenditures by program for the General Fund, Special Education Fund, Vocational Education Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

Financial Highlights

Our financial statements provide these insights into the result of this year's operations.

The overall condition of all funds and governmental activities have been strong in the past, but have been somewhat affected by the downturn in the state economy during the past few years. However, all goals related to the District's financial activities have been met and, with controlled spending and State support, resources for the 2008-09 fiscal year are available.

The assets of Eaton Intermediate School District exceeded its liabilities at the close of the most recent fiscal year by \$5,801,930. Of this amount, \$3,782,683 (unrestricted net assets) may be used to meet the District's ongoing obligations to taxpayers, students, and creditors.

The District's total net assets increased by \$477,392, primarily due to an increase in property taxes received by the District.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$4,384,858, an increase of \$479,473. Of the total fund balance, \$2,570,619 is available for spending at the District's discretion (unreserved, undesignated fund balance).

As of June 30, 2008, the aggregated fund balance for the District's main operating funds (General Fund, Special Education Fund and Vocational Education Fund) was \$3,720,620.

USING THE ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Eaton Intermediate School District's financial statements.

The Eaton Intermediate School District's financial statements are comprised of three components:

- 1) government-wide financial statements
- 2) fund financial statements, and
- 3) notes to the financial statements.

This report also contains required and other supplementary information in addition to the financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Eaton Intermediate School District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Eaton Intermediate School District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Eaton Intermediate School District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Both of the government-wide financial statements distinguish functions of the Eaton Intermediate School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Eaton Intermediate School District include instruction, support services, community services, and transfers to local districts.

The government-wide financial statements can be found on pages 1-2 of this report. The reconciliations to the fund level financial statements are presented on pages 5 and 8.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Eaton Intermediate School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Eaton Intermediate School District can be divided in two categories: governmental funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Eaton Intermediate School District maintains three individual major governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Special Education Fund, Vocational Fund which are all considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The Eaton Intermediate School District adopts annual appropriated budgets for its governmental funds. A budgetary comparison schedule has been provided for the General Fund, Special Education Fund and Vocational Fund to demonstrate compliance with their budgets. The basic governmental fund financial statements can be found on pages 3-4 and 6-7 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Eaton Intermediate School District's own programs. Fiduciary fund information is reported on pages 9-10.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11-24 of this report.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary information for the District's major funds. Required supplementary information can be found on pages 25-28 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information and are considered other supplementary information. Combining and individual fund statements can be found on pages 29-32 of this report.

Our auditors have provided assurance in their independent auditor's report, located immediately preceding this Management Discussion and Analysis, that the Financial Statements are fairly stated. The auditors provide varying degrees of assurance regarding the Required Supplementary Information and the Other Supplementary Information described earlier. A user of this report should read the Independent Auditor's Report carefully to ascertain the level of assurance being provided for each of the other parts in the Financial Section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's net assets were \$5,801,930 at June 30, 2008. Of this amount, \$3,782,683 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

<u>TABLE 1 - NET ASSETS</u>		
Governmental Activities (June 30, 2008)		
	<u>2007/08</u>	<u>2006/07</u>
Current Assets	\$8,109,179	\$7,908,830
Capital Assets	4,215,607	3,935,920
Total Assets	12,324,786	11,844,750
Current Liabilities	4,266,833	4,285,286
Noncurrent Liabilities	2,256,023	2,649,035
Total Liabilities	6,522,856	6,934,321
Invested in Capital Assets - Net of Debt	2,019,247	1,859,560
Unrestricted	3,782,683	3,050,869
Total Net Assets	\$5,801,930	\$4,910,429

The \$3,782,683 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we liquidated all our assets to cash and paid off all of our bills today, including all of our non-capital liabilities (compensated absences for example), there would be \$3,782,683 remaining.

Eaton ISD Management's Discussion and Analysis

Eaton ISD continues to provide Special Ed transportation services to its constituent districts, a service started in 2004/05. The cost for this service in 2007/08 was approximately \$2,950,000 representing a 16% increase due to increases in student ridership and fuel costs. Costs for 2006/07 services were approximately \$2,500,000. The district also received approximately \$90,000 in State Aid reimbursement related to the prior year's costs. This reimbursement was passed on to the local districts, making the total cost in 2006/07 roughly \$2,600,000. The district continues to provide the majority of itinerant services to constituent districts.

At the end of the current fiscal year, the Eaton Intermediate School District is able to report positive balances in all categories of net assets, both for the District as a whole, as well as for its separate governmental activities. The same situation was true for the prior fiscal year.

The results of this year's operations for the District as a whole are reported in the Statement of Activities on Page 2. Table 2 takes the information from that Statement and slightly rearranges them so you can see our total revenues for the year.

Net governmental activities increased the District's net assets by \$891,501. Key elements are as follows:

TABLE 2 - CHANGES IN NET ASSETS		
Governmental Activities		
Year Ended June 30, 2008		
	<u>2007/08</u>	<u>2006/07</u>
<u>Revenues:</u>		
Charges for Services	\$ 4,231,629	\$ 3,763,967
Operative Grants and Contributions	8,131,755	7,871,662
Capital Grants	56,119	56,119
<u>General Revenues:</u>		
Property Taxes	10,418,045	9,667,073
Grants and State Aid	5,404,169	5,780,248
Other	178,752	363,702
Total Revenues	28,420,469	27,502,771
<u>Functions/Program Expenses:</u>		
Instruction	6,466,257	6,547,963
Supporting Services	16,294,591	15,518,732
Community Services	2,096,565	1,861,545
Transfers for Local Districts and Other	2,346,785	2,787,791
Interest in Long-Term Obligations	99,636	96,137
Depreciation	225,134	213,211
Total Functions/Program Expenses	27,528,968	27,025,379
INCREASE IN NET ASSETS	\$ 891,501	\$ 477,392

Governmental Activities

As reported in the Statement of Activities on page 2, the cost of all of our governmental activities this year was \$27,528,968. However, the amount that our taxpayers ultimately financed for these activities through District taxes and other revenues was only \$15,109,465. \$4,231,629 was paid by those who benefited directly from the programs. \$8,131,755 was paid by governments and organizations who subsidized certain programs with grants and contributions and lastly by capital grants of \$56,119.

In the Table 3, we have presented the cost of each of the District's largest functions and depreciation, as well as each function's net cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the taxpayers of the District by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

TABLE 3 - SERVICE COSTS

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2007/08</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2006/07</u>
Instruction	\$ 6,466,257	\$ 6,547,963	\$ 3,963,774	\$ 3,926,895
Support Services	16,294,591	15,518,732	8,955,278	9,182,405
Community Services	2,096,565	1,861,545	(81,209)	(219,395)
Transfers to Local Districts and other	2,346,785	2,787,791	1,946,852	2,134,378
Interest on Long-Term Obligations	99,636	96,137	99,636	96,137
Depreciation - Unallocated	225,134	213,211	225,134	213,211
Total Governmental Activities	27,528,968	27,025,379	15,109,465	15,333,631

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared according to Michigan law. The most significant budgeted funds are the General Fund, Special Education Fund, and the Vocational Education Fund.

During the fiscal year ended June 30, 2008, the District amended the budget of these major governmental funds two times.

Budget Analysis By Fund

General Fund - Fund Level Data

The General Fund modified accrual basis actual revenue was \$4,070,276. That amount is more than original budget estimates of \$3,768,907 and the final amended budget of \$3,987,267.

Eaton ISD Management's Discussion and Analysis

The variance between the original budget and final budget primarily resulted from the following:

- 1) Increase in estimated property tax revenue, local grant funds, and LEA reimbursement.
- 2) Increases in State and Federal grant funding not included in adopted budget planning.
- 3) Increases in substitute teacher costs reimbursements by constituent districts.

The actual expenditures and other financing uses of the General Fund were \$4,054,286 which is more than the original budget estimates of \$3,764,556 and the final budget of \$3,991,144. The variance between the final budget and the original budget resulted from the following:

- 1) Grant expenses corresponding to increases in grant revenues.
- 2) Increased substitute teacher costs (reimbursed by constituent districts).
- 3) Expenses associated with the new phone system and data warehousing system provided on behalf of the constituent districts.

General Fund had total revenues of \$4,070,276 and total expenditures of \$4,054,286 with an excess of \$15,990. The excess amount from annual operations makes the final fund balance amount in the General Fund \$1,033,257.

Special Education Fund - Fund Level Data

The Special Education Fund actual revenue was \$19,072,349. That amount is above the original budget estimate of \$18,681,600 and the final amended budget estimate of \$18,819,833. Variances between the original budget and final budget as follows:

- 1) Property taxes were greater than original estimate.
- 2) Prior year special education transportation adjustment was greater than original estimate.
- 3) Increases in State and Federal grant funding over the original budget.

The actual expenditures and other financing uses of the Special Education Fund were \$18,615,486 is less than the original budget of \$18,951,559 and the final amended budget of \$19,012,028. The variance between the original budget and amended budget resulted from a increase in grant expenses corresponding to the increase in State and Federal grant funding, and estimates of staffing costs.

Special Education Fund had total revenues of \$19,072,349 and total expenditures of \$18,615,486 leaving an excess of \$456,863 and an ending fund balance of \$1,783,832.

Vocational Education Fund - Fund Level Data

The Vocational Education Fund actual revenue was \$5,314,639. That amount is less than the original budget estimate of \$5,545,374 and more than the final amended budget of \$5,273,852. Variances between the actual revenues, the original budget and final budget resulted as follows:

- 1) Property taxes increased over original budget.
- 2) Original budget included the sale of prior year spec house that didn't materialize.
- 3) Tuition estimates for out of county students decreased from original budget.

The actual expenditures and other financing uses of the Vocational Education Fund were \$5,082,420, which is below the original budget of \$5,541,513 and the final amended budget of \$5,258,133. The variance between the original budget and the amended budget resulted as follows:

- 1) Spec house expenses deferred to match eventual sale. Two houses are included in inventory at June 30, 2008.
- 2) Reduction in grant expenses to match reduction in grant revenues.
- 3) Reduction in estimated Lansing Community College's costs for programs.

Vocational Education Fund had total revenues of \$5,314,639 and total expenditures of \$5,082,420 leaving an excess of \$232,219 and an ending fund balance of \$903,531.

TOTAL ISD REVENUES - FUND LEVEL

The total revenues and other financing sources for all funds of the District on the modified accrual basis were \$28,771,880.

Program specific revenues in the form of charges for services, sales and grants, and contributions accounted for 43% of the total revenues and other financing sources for all funds.

GOVERNMENTAL FUND EXPENDITURES

In reviewing the following chart, you will see that Special Education comprises 66% of all expenditures within the governmental funds of the District. Total governmental fund expenditures and other financing uses amounted to \$28,292,407. Governmental funds had a net increase of \$479,473 in fund balance. The ending fund balance for all governmental funds was \$4,384,858 which represents approximately 15% of 2007/08 expenditures. This fund balance will be used to fund future operations, capital improvements, and for maintenance of adequate cash flow to reduce the amount of borrowing.

TABLE 4 - GOVERNMENTAL FUND EXPENDITURES

	<u>June 30, 2008</u>	<u>% of Total</u>	<u>June 30, 2007</u>	<u>% of Total</u>
General Fund	\$ 4,054,286	14%	\$ 3,987,701	14%
Special Education Fund	18,615,486	66%	18,021,179	66%
Vocational Education Fund	5,082,420	18%	5,235,227	19%
Nonmajor Governmental Funds	540,215	2%	230,523	1%
Total	\$28,292,407	100%	\$27,474,630	100%

CAPITAL ASSET AND DEBT ADMINISTRATION**Capital Assets**

At the end of fiscal year 2008, the District had \$6,659,782 invested in land and buildings, furniture and equipment, and vehicles. The accumulated depreciation amount is \$2,444,175. We currently have a net book value of \$4,215,607. Total additions of capital assets for the year were \$504,821. The majority of changes were computer and equipment purchases as well as building improvements under the 2007 Energy Conservation Bonds.

TABLE 5 - CAPITAL ASSETS AT YEAR END**Governmental Activities
(Net of Depreciation)**

	<u>2007/08</u>	<u>2006/07</u>
Land	\$ 23,500	\$ 23,500
Building and Improvements	3,757,258	3,534,556
Furniture and Equipment	416,123	352,618
Vehicles	18,726	25,246
TOTAL	\$4,215,607	\$3,935,920

Long-Term Debt

At June 30, 2008, the District had \$1,885,000 in outstanding bonds for the 1999 additions and improvements and the 2007 Energy Conservation Bonds for the Packard Highway facility. There is also \$331,360 of Durant Resolution Bonds. The annual payment for the Durant bonds is made by the State of Michigan. According to the legislation enacted, if the State fails to appropriate the money to fund the bond payments, the District is under no obligation for the payment.

TABLE 6 - OUTSTANDING DEBT AT YEAR END**Governmental Activities**

	<u>2007/08</u>	<u>2006/07</u>
General Obligation Bonds	\$2,196,360	\$2,326,360

The District also has vacation and sick leave entitlements as long-term liabilities accumulated at June 30, 2008 in the amount of \$521,122 collectively.

State statutes limit the amount of general obligation debt that a District may issue. The current debt limitation for the Eaton Intermediate School District is significantly greater than the outstanding debt of the District.

Additional information on the District's long-term debt can be found in Note D on pages 18-20 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan continues to decline. General Fund Sec. 81 categorical funding remains below previous year's funding levels, impacting General, Special Ed and Vocational funds. Federal support for Special Education is not expected to increase while the need for special education services continues to increase. Tax values are projected to decrease over the next two years due to the housing market decline.

On the positive side, bargaining agreements covering the District's two collective bargaining groups expired in 2008. Due to the goodwill between administration and the association leadership, the District was able to settle two year contracts for the certified staff and the administrators. The contracts are favorable to the both parties including modest salary increases as well as a change in insurance coverage and co-payments. The District continues to negotiate with the support staff association and expects to settle the contract shortly. Though funding from the State continues to be uncertain for 2008/09 and 2009/10, the District will be able to continue to provide excellent services to students and constituent districts.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Eaton Intermediate School District's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

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BASIC FINANCIAL STATEMENTS

Eaton Intermediate School District

STATEMENT OF NET ASSETS

June 30, 2008

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 3,196,943
Accounts receivable	20,605
Due from other governmental units	4,347,333
Prepays	3,821
Inventories	540,477
	<hr/>
TOTAL CURRENT ASSETS	8,109,179
Noncurrent assets	
Capital assets not being depreciated	23,500
Capital assets, net of accumulated depreciation	4,192,107
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TOTAL NONCURRENT ASSETS	4,215,607
	<hr/>
TOTAL ASSETS	12,324,786
LIABILITIES	
Current liabilities	
Accounts payable	1,262,209
Due to other governmental units	961,102
Accrued payroll	803,051
Accrued interest payable	81,053
Other accrued liabilities	521,344
Unearned revenue	176,615
Current portion of compensated absences	135,612
Current portion of long-term debt	325,847
	<hr/>
TOTAL CURRENT LIABILITIES	4,266,833
Noncurrent liabilities	
Noncurrent portion of compensated absences	385,510
Noncurrent portion of long-term debt	1,870,513
	<hr/>
TOTAL NONCURRENT LIABILITIES	2,256,023
	<hr/>
TOTAL LIABILITIES	6,522,856
NET ASSETS	
Invested in capital assets, net of related debt	2,019,247
Unrestricted	3,782,683
	<hr/>
TOTAL NET ASSETS	\$ 5,801,930
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See accompanying notes to financial statements.

Eaton Intermediate School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Programs/Functions	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Capital Grants	Governmental Activities
Instruction	\$ 6,466,257	\$ 2,140,518	\$ 305,846	\$ 56,119	\$ (3,963,774)
Supporting services	16,294,591	2,062,352	5,276,961	-	(8,955,278)
Community services	2,096,565	28,759	2,149,015	-	81,209
Payments to other districts	2,346,785	-	399,933	-	(1,946,852)
Interest on long-term debt	99,636	-	-	-	(99,636)
Unallocated depreciation	225,134	-	-	-	(225,134)
TOTAL EXPENSES	\$ 27,528,968	\$ 4,231,629	\$ 8,131,755	\$ 56,119	(15,109,465)
General revenues					
Property taxes					10,418,045
State school aid - unrestricted					5,404,169
Investment earnings					108,185
Miscellaneous					70,567
Total general revenues					16,000,966
Change in net assets					891,501
Net assets, beginning of year					4,910,429
Net assets, end of year					\$ 5,801,930

See accompanying notes to financial statements.

Eaton Intermediate School District

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	General	Special Education	Vocational Education
ASSETS			
Cash and cash equivalents	\$ 698,388	\$ 903,479	\$ 918,633
Accounts receivable	15,964	-	4,641
Due from other governmental units	787,597	3,173,369	386,367
Prepays	3,783	38	-
Inventories	29,881	-	510,596
TOTAL ASSETS	<u>\$ 1,535,613</u>	<u>\$ 4,076,886</u>	<u>\$ 1,820,237</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 142,578	\$ 1,017,321	\$ 90,105
Due to other governmental units	8,235	244,179	708,688
Accrued payroll	67,624	649,180	86,247
Other accrued liabilities	130,558	359,120	31,666
Deferred revenue	153,361	23,254	-
TOTAL LIABILITIES	502,356	2,293,054	916,706
FUND BALANCES			
Reserved for			
Inventories	29,881	-	510,596
Prepays	3,783	38	-
Debt service	-	-	-
Unreserved			
Designated for			
Capital expenditures	-	-	-
Subsequent year's expenditures	-	626,983	-
Undesignated, reported in			
General fund	999,593	-	-
Special revenue funds	-	1,156,811	392,935
TOTAL FUND BALANCES	<u>1,033,257</u>	<u>1,783,832</u>	<u>903,531</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,535,613</u>	<u>\$ 4,076,886</u>	<u>\$ 1,820,237</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 676,443	\$ 3,196,943
-	20,605
-	4,347,333
-	3,821
-	540,477
<u>\$ 676,443</u>	<u>\$ 8,109,179</u>
\$ 12,205	\$ 1,262,209
-	961,102
-	803,051
-	521,344
-	176,615
12,205	3,724,321
-	540,477
-	3,821
9,602	9,602
633,356	633,356
-	626,983
-	999,593
21,280	1,571,026
664,238	4,384,858
<u>\$ 676,443</u>	<u>\$ 8,109,179</u>

Eaton Intermediate School District

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2008

Total fund balance - governmental funds \$ 4,384,858

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 6,659,782	
Accumulated depreciation is	<u>(2,444,175)</u>	
		4,215,607

Long-term liabilities, including bonds payable, are not due and
payable in the current period and therefore are not reported as liabilities in
the funds. Long-term liabilities at year-end consist of:

Bonds and loans payable	(2,196,360)	
Accrued interest payable	(81,053)	
Compensated absences	<u>(521,122)</u>	
		<u>(2,798,535)</u>

Net assets of governmental activities \$ 5,801,930

See accompanying notes to financial statements.

Eaton Intermediate School District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General	Special Education	Vocational Education
REVENUES			
Local sources	\$ 1,181,080	\$ 7,589,626	\$ 2,524,309
State sources	778,772	4,721,214	259,929
Federal sources	905,564	4,532,992	1,949,601
TOTAL REVENUES	2,865,416	16,843,832	4,733,839
EXPENDITURES			
Current			
Instruction	1,238,316	3,261,885	1,969,073
Supporting services	2,331,833	12,976,204	1,178,098
Community service	337,371	40,840	1,719,332
Debt service	-	-	-
Capital outlay	-	1,044	-
TOTAL EXPENDITURES	3,907,520	16,279,973	4,866,503
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,042,104)	563,859	(132,664)
OTHER FINANCING SOURCES (USES)			
Other transactions	1,204,860	2,172,398	580,800
Transfers from other funds	-	56,119	-
Payments to other districts	(28,478)	(2,127,390)	(190,917)
Transfers to other funds	(118,288)	(208,123)	(25,000)
TOTAL OTHER FINANCING SOURCES (USES)	1,058,094	(106,996)	364,883
NET CHANGE IN FUND BALANCES	15,990	456,863	232,219
Fund balances, beginning of year	1,017,267	1,326,969	671,312
Fund balances, end of year	\$ 1,033,257	\$ 1,783,832	\$ 903,531

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Totals Governmental Funds
\$ 19,324	\$ 11,314,339
-	5,759,915
-	7,388,157
19,324	24,462,411
-	6,469,274
1,259	16,487,394
-	2,097,543
220,292	220,292
318,664	319,708
540,215	25,594,211
(520,891)	(1,131,800)
-	3,958,058
295,292	351,411
-	(2,346,785)
-	(351,411)
295,292	1,611,273
(225,599)	479,473
889,837	3,905,385
\$ 664,238	\$ 4,384,858

Eaton Intermediate School District

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Net change in fund balances - total governmental funds **\$ 479,473**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	504,821	
Depreciation expense		<u>(225,134)</u>	
Excess of capital outlay over depreciation expense			279,687

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement			130,000
---------------------------	--	--	---------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These amounts consist of:

(Increase) in accrued interest payable		(9,344)	
Decrease in compensated absences		<u>11,685</u>	
			<u>2,341</u>

Change in net assets of governmental activities **\$ 891,501**

See accompanying notes to financial statements.

Eaton Intermediate School District

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Agency Fund	Private Purpose Trust Fund
ASSETS		
Cash and cash equivalents	<u>\$ 1,420</u>	<u>\$ 1,323</u>
LIABILITIES		
Due to student groups	<u>\$ 1,420</u>	<u>-</u>
NET ASSETS		
Held in trust for private purposes		<u>\$ 1,323</u>

See accompanying notes to financial statements.

Eaton Intermediate School District

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2008

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Contributions	
Private donations	\$ 4,104
DEDUCTIONS	
Community services	<u>4,122</u>
CHANGE IN NET ASSETS	(18)
Net assets - beginning of year	<u>1,341</u>
Net assets - end of year	<u><u>\$ 1,323</u></u>

See accompanying notes to financial statements.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Eaton Intermediate School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Eaton Intermediate School District (primary government). The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements of the District contain all the funds controlled by the District.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included. Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to record its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. Separate columns are shown for major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.
- b. Special Education Fund - The Special Education Fund is used to account for money or other resources provided from all sources including local extra voted millage for the operation of special education programs and/or the distribution of funds to other local education agencies for operating special education programs.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

- c. Vocational Education Fund - The Vocational Education Fund is used to account for money or other sources provided from all sources including local extra voted millage for the operation of vocational technical education programs. The Vocational Education fund also is used to account for Federal and State revenues received to operate job-training programs.

3. Measurement Focus

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty (60) days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplementary appropriations were made during the year with the last one approved June 25, 2008.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of checking accounts, pooled investment funds, and imprest cash. Cash equivalents are recorded at market value.

7. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant and local programs and State Aid payments. The State of Michigan's funding stream resulted in two (2) payments related to the fiscal year ended June 30, 2008 being paid in July and August 2008. The total amount of \$4,347,333 due from other governmental units consists of \$998,210 and \$3,349,123 related to State Aid and grant and local programs, respectively.

8. Prepaids

Prepaids, which are expected to benefit future periods, are included as assets in both the District-wide and Fund financial statements. Reported prepaid expenditures are equally offset in the governmental fund balance sheet by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of ending fund balance.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Inventories

Inventories are stated at cost on a first in/first out basis. Inventories consist of a house constructed by students and expendable supplies held for consumption or use in the various educational programs conducted by the District (i.e., Vocational Education). Reported inventories are equally offset by a fund balance reserve in the fund financial statements, which indicates that they do not constitute "available spendable resources" even though they are a component of ending fund balance.

10. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Computer equipment, classroom and office modules, electronic equipment over \$1,000, and all other purchases with an initial individual cost of \$5,000 and an estimated useful life of more than one year are recorded as Capital assets. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. Purchased assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	20 - 50 years
Equipment and furniture	5 - 20 years
Vehicles	8 years

The District has no assets that would be classified as infrastructure assets.

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested sick and vacation pay amounts and non-vested sick and vacation pay amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes in the district-wide financial statements. The total is allocated between short and long-term based on management's determination of the amount that will be paid in the short-term and the remaining was recorded as long-term.

Vested vacation amounts scheduled to be paid from expendable available resources are recorded along with the related payroll taxes as a liability in the applicable governmental funds.

12. Deferred Revenues

The unexpended balance of various federal and/or state categorical and local grants is carried forward as deferred revenue in governmental funds until the period in which eligible expenditures are incurred. Amounts shown as unearned revenue on the Statement of Net Assets relate to the same state categorical and local grants but are shown here because they are not earned.

13. Accrued Interest Payable

Accrued interest on long-term obligations is presented in the district-wide statements as a current liability.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Long-Term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

15. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the collecting entity. The District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected. The District is permitted by the Constitution of the State of Michigan of 1963 to levy taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Special Education, Vocational Education, and Debt Service Fund expenditures. For the year ended June 30, 2008, the District levied the following mills per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund	.1843
Special Education Fund	2.7704
Vocational Education Fund	.9231

16. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as part of the preparation of the District-wide financial statements.

17. Reserved/Designated Fund Balance

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the District has set aside for specific purposes.

18. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

19. Comparative Data

Comparative data for the prior year has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each.

Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, the carrying amount of the District's deposits was \$504,835 and the bank balance was \$503,981 of which \$205,536 was covered by Federal depository insurance. The balance of \$298,445 was uninsured and uncollateralized. The district had \$750 imprest cash on hand.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Investments

As of June 30, 2008, the carrying amounts and market values for each type of investment as reported in the cash and cash equivalents caption in the financial statements are as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
LaSalle Bank - Fimm Funds			
Government Portfolio	\$ 630,342	\$ 630,342	N/A
LaSalle Bank - AIS			
Repurchase Agreements	1,960,715	3,481,305	N/A
MBIA - Michigan CLASS	<u>103,044</u>	<u>103,044</u>	N/A
	<u>\$ 2,694,101</u>	<u>\$ 4,214,691</u>	

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, the District's investments in the Fimm Funds Government Portfolio and the MBIA - Michigan Class were rated AAA/V1+ by Standard and Poor's and AAA/V1 by Fitch Ratings, respectively.

Interest rate risk

The District has adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the weighted average maturity in accordance with the District's cash requirements.

Concentration of credit risk

The District has adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District has adopted a policy that indicates how the District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the District's investment policy and pre-qualifying the investment institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

As of June 30, 2008, the cash and cash equivalents referred to above have been reported in the cash and cash equivalents caption in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 3,196,943</u>	<u>\$ 2,743</u>	<u>\$ 3,199,686</u>

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 23,500	\$ -	\$ -	\$ 23,500
Capital assets being depreciated				
Buildings and additions	5,106,051	318,662	-	5,424,713
Equipment and furniture	1,006,498	186,159	(33,254)	1,159,403
Vehicles	<u>63,166</u>	<u>-</u>	<u>(11,000)</u>	<u>52,166</u>
Subtotal	6,175,715	504,821	(44,254)	6,636,282
Less accumulated depreciation for:				
Buildings and additions	(1,571,495)	(95,960)	-	(1,667,455)
Equipment and furniture	(653,880)	(122,134)	32,734	(743,280)
Vehicles	<u>(37,920)</u>	<u>(6,520)</u>	<u>11,000</u>	<u>(33,440)</u>
Subtotal	<u>(2,263,295)</u>	<u>(224,614)</u>	<u>43,734</u>	<u>(2,444,175)</u>
Net capital assets being depreciated	<u>3,912,420</u>	<u>280,207</u>	<u>(520)</u>	<u>4,192,107</u>
Capital assets, net	<u>\$ 3,935,920</u>	<u>\$ 280,207</u>	<u>\$ (520)</u>	<u>\$ 4,215,607</u>

The current year depreciation expense of \$224,614 has been adjusted by \$520 for the disposal of capital assets during the year, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses may be handled as an adjustment to the current period's depreciation expense.

Depreciation expense of \$225,134 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2008.

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Amounts Due Within One Year</u>
1998 Durant Resolution Bonds	\$ 331,360	\$ -	\$ -	\$ 331,360	\$ 190,847
1999 School Building and Site Bonds	1,745,000	-	110,000	1,635,000	115,000
2007 Energy Conservation Bonds	250,000	-	20,000	230,000	20,000
Compensated absences	<u>532,807</u>	<u>647,946</u>	<u>659,631</u>	<u>521,122</u>	<u>135,612</u>
	<u>\$ 2,859,167</u>	<u>\$ 647,946</u>	<u>\$ 789,631</u>	<u>\$ 2,717,482</u>	<u>\$ 461,459</u>

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE D: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds

\$2,465,000 School Building and Site General Obligation Bonds dated March 1, 1999, due in annual installments ranging from \$115,000 to \$185,000 through May 1, 2019, with interest ranging from 4.30 to 4.85 percent, payable semi-annually. \$ 1,635,000

Resolution Bonds

\$561,188 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$32,717 to \$190,847, with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds are paid through an annual appropriation from the State of Michigan. The State of Michigan has suspended payment on these bonds until May 15, 2009. 331,360

Energy Conservation Bonds

\$250,000 Energy Conservation Improvement Bonds dated June 1, 2007, due in annual installments ranging from \$20,000 to \$30,000, through May 1, 2017, with interest of 4.30 percent, payable semi-annually. 230,000
\$ 2,196,360

Compensated Absences

In accordance with District personnel policies and/or contracts negotiated with various employee groups of the District, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

A summary of the calculated amounts of accrued sick pay and related payroll taxes as of June 30, 2008, which has been recorded in the district-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Sick pay	\$ 242,169	\$ 179,142	\$ 421,311
Payroll taxes	<u>18,526</u>	<u>13,704</u>	<u>32,230</u>
	<u>\$ 260,695</u>	<u>\$ 192,846</u>	<u>\$ 453,541</u>

A summary of the calculated amounts of accrued vacation pay and related payroll taxes as of June 30, 2008, which has been recorded in the district-wide financial statements, is as follows:

	<u>Total</u>
Vacation pay	\$ 62,778
Payroll taxes	<u>4,803</u>
	<u>\$ 67,581</u>

Eaton Intermediate School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE D: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the long-term debt are as follows:

Year Ending June 30,	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 190,847	\$ 73,934	\$ 115,000	\$ 75,763
2010	32,717	6,690	125,000	70,818
2011	34,276	5,133	130,000	65,318
2012	35,905	3,501	135,000	59,598
2013	37,615	1,791	140,000	53,455
2014-2018	-	-	805,000	163,558
2019	-	-	185,000	8,973
	<u>\$ 331,360</u>	<u>\$ 91,049</u>	<u>\$ 1,635,000</u>	<u>\$ 497,483</u>

Year Ending June 30,	<u>Energy Conservation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 20,000	\$ 9,890
2010	20,000	9,030
2011	25,000	8,170
2012	25,000	7,095
2013	25,000	6,020
2014-2017	<u>115,000</u>	<u>12,685</u>
	<u>\$ 230,000</u>	<u>\$ 52,890</u>

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation. The State of Michigan has suspended payments on these bonds until May 15, 2009. It appears this suspension will have no financial impact on Eaton Intermediate School District in the future.

NOTE E: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2007, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2008 was \$11,378,531 of which \$8,472,000 was for members who have elected the MIP option; the District's total payroll was \$12,012,699.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE E: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated range; 3% of the first \$5,000; 3.6% or \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2007 to September 30, 2007, the District was required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. For the period of October 1, 2007 to June 30, 2008, the District is required by State statute to contribute 16.72% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2008 and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2008	\$ 330,406	\$ 1,923,815	\$ 2,254,221
2007	311,175	1,920,042	2,231,217
2006	295,559	1,703,433	1,998,992

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>
2008	3.9%	16.9%
2007	4.0	17.4
2006	4.0	16.0

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F: INTERFUND TRANSFERS - CONTINUED

Transfers to nonmajor governmental funds from:	
General Fund	\$ 62,169
Special Education Fund	208,123
Vocational Education Fund	<u>25,000</u>
	<u>\$ 295,292</u>
Transfers to Special Education Fund from:	
General Fund	<u>\$ 56,119</u>

NOTE G: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

As shown in the Budgetary Comparison Schedules, which are included in the financial statements as Required Supplementary Information, the District's budgeted expenditures in the governmental funds have been adopted and shown at the functional classification level.

During the year ended June 30, 2008, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Instruction			
Basic programs	\$ 1,176,015	\$ 1,238,316	\$ 62,301
Supporting services			
Pupil	231,506	284,971	53,465
General administration	299,734	300,928	1,194
Central	531,069	561,930	30,861
Community services	280,546	337,371	56,825
Other financing uses			
Payments to other districts	26,445	28,478	2,033
Special Education Fund			
Instruction			
Added needs	3,218,317	3,261,885	43,568
Supporting services			
Pupil transportation	2,690,164	2,951,821	261,657
Other	2,400	3,409	1,009

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

During the year ended June 30, 2008, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Vocational Education Fund			
Supporting services			
Central Services	\$ 69,389	\$ 72,322	\$ 2,933
Operation and maintenance	85,156	119,513	34,357
Community services	1,715,261	1,719,332	4,071
Other financing uses			
Transfers to other funds	-	25,000	25,000

NOTE H: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, fleet, liability, in-land marine, crime, data processing, valuable papers and records, outdoor sign, boiler, and employee dishonesty. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

NOTE I: FLEXIBLE BENEFITS PLAN

In September 1991, for all administrative employees and in March 1996 for all bargaining unit employees, the District implemented flexible benefit cafeteria plans established under Section 125 of the Internal Revenue Code. The plans are available to all employees who are either collective bargaining unit employees or administrative employees.

The bargaining unit employee's plan permits employees, who must pay a portion of the health insurance, to do so through a pretax compensation reduction. The plan also permits employees to reduce their compensation and apply it to medical or dependent care expenses. If the employee waives health insurance coverage from the District they may receive a cash benefit in lieu of such health insurance.

The administrative employee's plan allows for an employer provided payment to the plan for each employee, which can be used for medical or dependent care expenses. The plan also permits employees to reduce their compensation and apply it to medical or dependent care expenses.

The plans are administered by Eaton Intermediate School District.

Eaton Intermediate School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE J: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past under funding of special education. Eaton Intermediate School District, a nonplaintiff District, was awarded \$1,122,375 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

REQUIRED SUPPLEMENTARY INFORMATION

Eaton Intermediate School District

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Local sources	\$ 1,054,786	\$ 1,206,693	\$ 1,181,080	\$ (25,613)
State sources	757,926	828,211	778,772	(49,439)
Federal sources	866,764	829,754	905,564	75,810
TOTAL REVENUES	2,679,476	2,864,658	2,865,416	.758
EXPENDITURES				
Current				
Instruction				
Basic programs	1,141,572	1,176,015	1,238,316	(62,301)
Supporting services				
Pupil	190,188	231,506	284,971	(53,465)
Instructional staff	1,091,685	1,078,029	1,013,102	64,927
General administration	296,934	299,734	300,928	(1,194)
School administration	122,954	116,549	69,379	47,170
Business	63,750	71,118	59,028	12,090
Pupil transportation	407	436	436	-0-
Central	378,982	531,069	561,930	(30,861)
Operation and maintenance	60,130	61,409	42,059	19,350
Total supporting services	2,205,030	2,389,850	2,331,833	58,017
Community services	275,695	280,546	337,371	(56,825)
TOTAL EXPENDITURES	3,622,297	3,846,411	3,907,520	(61,109)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(942,821)	(981,753)	(1,042,104)	(60,351)
OTHER FINANCING SOURCES (USES)				
Other transactions	1,089,431	1,122,609	1,204,860	82,251
Payments to other districts	(30,395)	(26,445)	(28,478)	(2,033)
Transfers to other funds	(111,864)	(118,288)	(118,288)	-0-
TOTAL OTHER FINANCING SOURCES (USES)	947,172	977,876	1,058,094	80,218
NET CHANGE IN FUND BALANCE	4,351	(3,877)	15,990	19,867
Fund balance, beginning of year	1,017,267	1,017,267	1,017,267	-0-
Fund balance, end of year	\$ 1,021,618	\$ 1,013,390	\$ 1,033,257	\$ 19,867

Eaton Intermediate School District

Special Education Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Local sources	\$ 7,334,060	\$ 7,386,995	\$ 7,589,626	\$ 202,631
State sources	4,695,165	4,670,600	4,721,214	50,614
Federal sources	4,830,087	4,818,284	4,532,992	(285,292)
 TOTAL REVENUES	 16,859,312	 16,875,879	 16,843,832	 (32,047)
EXPENDITURES				
Current				
Instruction				
Added needs	3,277,125	3,218,317	3,261,885	(43,568)
Supporting services				
Pupil	7,262,993	7,471,078	7,004,120	466,958
Instructional staff	704,853	754,724	673,070	81,654
General administration	19,803	18,733	15,206	3,527
School administration	188,060	186,007	183,637	2,370
Business	349,922	377,145	351,291	25,854
Pupil transportation	2,676,789	2,690,164	2,951,821	(261,657)
Central	1,641,054	1,507,853	1,432,704	75,149
Operation and maintenance	406,297	400,470	360,946	39,524
Other	2,400	2,400	3,409	(1,009)
 Total supporting services	 13,252,171	 13,408,574	 12,976,204	 432,370
Community services	86,958	42,874	40,840	2,034
Capital outlay	4,000	2,000	1,044	956
 TOTAL EXPENDITURES	 16,620,254	 16,671,765	 16,279,973	 391,792
 EXCESS OF REVENUES OVER EXPENDITURES	 239,058	 204,114	 563,859	 359,745

Eaton Intermediate School District

Special Education Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Other transactions	\$ 1,766,169	\$ 1,887,835	\$ 2,172,398	\$ 284,563
Transfers from other funds	56,119	56,119	56,119	-0-
Payments to other districts	(2,171,502)	(2,132,140)	(2,127,390)	4,750
Transfers to other funds	(159,803)	(208,123)	(208,123)	-0-
TOTAL OTHER FINANCING SOURCES (USES)	(509,017)	(396,309)	(106,996)	289,313
NET CHANGE IN FUND BALANCE	(269,959)	(192,195)	456,863	649,058
Fund balance, beginning of year	1,326,969	1,326,969	1,326,969	-0-
Fund balance, end of year	<u>\$ 1,057,010</u>	<u>\$ 1,134,774</u>	<u>\$ 1,783,832</u>	<u>\$ 649,058</u>

Eaton Intermediate School District

Vocational Education Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 2,727,003	\$ 2,470,247	\$ 2,524,309	\$ 54,062
State sources	368,824	261,004	259,929	(1,075)
Federal sources	1,825,547	1,961,801	1,949,601	(12,200)
TOTAL REVENUES	4,921,374	4,693,052	4,733,839	40,787
EXPENDITURES				
Current				
Instruction				
Added needs	2,466,830	2,087,260	1,969,073	118,187
Supporting services				
Pupil	521,086	488,422	417,806	70,616
Instructional staff	242,085	239,911	199,470	40,441
General administration	4,252	3,968	3,211	757
School administration	285,587	280,671	274,057	6,614
Business	105,071	93,021	88,489	4,532
Pupil transportation	3,815	491	491	-0-
Central Services	72,137	69,389	72,322	(2,933)
Operation and maintenance	80,506	85,156	119,513	(34,357)
Other	2,500	3,666	2,739	927
Total supporting services	1,317,039	1,264,695	1,178,098	86,597
Community services	1,577,491	1,715,261	1,719,332	(4,071)
TOTAL EXPENDITURES	5,361,360	5,067,216	4,866,503	200,713
EXCESS OF REVENUES (UNDER) EXPENDITURES	(439,986)	(374,164)	(132,664)	241,500
OTHER FINANCING SOURCES (USES)				
Other transactions	624,000	580,800	580,800	-0-
Transfers to other funds	-	-	(25,000)	(25,000)
Payments to other districts	(180,153)	(190,917)	(190,917)	-0-
TOTAL OTHER FINANCING SOURCES (USES)	443,847	389,883	364,883	(25,000)
NET CHANGE IN FUND BALANCE	3,861	15,719	232,219	216,500
Fund balance, beginning of year	671,312	671,312	671,312	-0-
Fund balance, end of year	\$ 675,173	\$ 687,031	\$ 903,531	\$ 216,500

OTHER SUPPLEMENTARY INFORMATION

Eaton Intermediate School District

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2008

	Special Revenue		Capital
	SAPE Fund	Debt Service Fund	General Capital Projects
ASSETS			
Cash and cash equivalents	\$ 21,453	\$ 9,752	\$ 224,030
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 173	\$ 150	\$ 11,080
FUND BALANCES			
Reserved for debt service	-	9,602	-
Unreserved			
Designated for capital expenditures	-	-	212,950
Undesignated, reported in special revenue funds	21,280	-	-
TOTAL FUND BALANCES	21,280	9,602	212,950
TOTAL LIABILITIES AND FUND BALANCES	\$ 21,453	\$ 9,752	\$ 224,030

Project Funds		
Special Education Capital Projects	Vocational Education Capital Projects	Total
<u>\$ 364,738</u>	<u>\$ 56,470</u>	<u>\$ 676,443</u>
\$ 802	\$ -	\$ 12,205
-	-	9,602
363,936	56,470	633,356
<u>-</u>	<u>-</u>	<u>21,280</u>
<u>363,936</u>	<u>56,470</u>	<u>664,238</u>
<u>\$ 364,738</u>	<u>\$ 56,470</u>	<u>\$ 676,443</u>

Eaton Intermediate School District

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	Special Revenue		Capital
	SAPE Fund	Debt Service Fund	General Capital Projects
REVENUES			
Local sources	\$ -	\$ 392	\$ 11,956
EXPENDITURES			
Current			
Supporting services			
Instructional staff	959	300	-
Debt service			
Principal retirement	-	130,000	-
Interest and fiscal charges	-	90,292	-
Capital outlay	-	-	318,664
TOTAL EXPENDITURES	959	220,592	318,664
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(959)	(220,200)	(306,708)
OTHER FINANCING SOURCES			
Transfers from other funds	-	220,292	25,000
NET CHANGE IN FUND BALANCES	(959)	92	(281,708)
Fund balances, beginning of year	22,239	9,510	494,658
Fund balances, end of year	\$ 21,280	\$ 9,602	\$ 212,950

Project Funds		
Special Education Capital Projects	Vocational Education Capital Projects	Total
\$ 6,200	\$ 776	\$ 19,324
-	-	1,259
-	-	130,000
-	-	90,292
-	-	318,664
-0-	-0-	540,215
6,200	776	(520,891)
25,000	25,000	295,292
31,200	25,776	(225,599)
332,736	30,694	889,837
\$ 363,936	\$ 56,470	\$ 664,238

Eaton Intermediate School District

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2008

Eaton Intermediate School District

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
of Eaton Intermediate School District
Charlotte, Michigan

Compliance

We have audited the compliance of Eaton Intermediate School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major Federal program for the year ended June 30, 2008. Eaton Intermediate School District's major Federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of Eaton Intermediate School District's management. Our responsibility is to express an opinion on Eaton Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Eaton Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Eaton Intermediate School District's compliance with those requirements.

In our opinion, Eaton Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Eaton Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Eaton Intermediate School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Eaton Intermediate School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

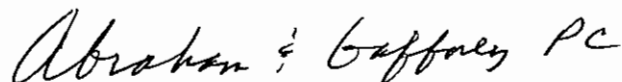
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eaton Intermediate School District as of and for the year ended June 30, 2008, and have issued our report thereon dated November 10, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Eaton Intermediate School District's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the administration, the Board of Education of Eaton Intermediate School District, others within the District, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 10, 2008

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>GENERAL FUND</u>			
U.S. Department of Education			
Direct Assistance			
Rural Education Achievement Program	84.358A		
2007-08		S358A076231	\$ 26,298
2006-07		S358A066231	29,423
			<hr/>
			55,721
Passed Through State Department of Education			
Title V Part A Regular	84.298		
2006-07 Regular		0702500607	177
U.S. Department of Health and Human Services			
Direct Assistance			
Drug Free Communities Support Program	93.276	1 H79 SP13791-01	229,950
Passed through Cristo Rey Community Center			
Drug Free Communities Support Program	93.276	1 H79 SP014371-01	40,000
Passed through Michigan Department of Community Health, Bureau of Substance Abuse Services, and Mid-South Substance Abuse Commission			
SPF/SIG	93.243		
Eaton		23000	3,000
Ingham		23000	3,000
			<hr/>
			6,000
Prevention Program ^(f)	93.959		
2006-07 Eaton		230005	152,468
2007-08 Eaton		230005	163,583
2006-07 Ingham		230005	151,498
2007-08 Ingham		230005	164,232
			<hr/>
			631,781
Passed through State Department of Community Health			
Michigan Abstinence Partnership	93.235		
2006-07		20072087	162,000

	Balance July 1, 2007			Balance June 30, 2008
Restated (Memo Only) Prior Years' Expenditures	Restated Accrued or (Deferred) Revenue	Cash Receipts/ In Kind Payments	Expenditures	Accrued or (Deferred) Revenue
\$ -	\$ -	\$ -	\$ 26,298	\$ 26,298
14,571	14,571	29,311	14,740	-0-
14,571	14,571	29,311	41,038	26,298
177	177	177	-	-0-
60,864	60,864	70,565	92,195	82,494
-	-	-	31,543	31,543
-	-	3,000	3,000	-0-
-	-	3,000	3,000	-0-
-0-	-0-	6,000	6,000	-0-
116,387	30,852	66,933	36,081	-0-
-	-	90,997	118,641	27,644
117,769	31,222	64,950	33,728	-0-
-	-	83,835	118,901	35,066
234,156	62,074	306,715	307,351	62,710
124,912	35,838	71,455	35,617	-0-

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>GENERAL FUND - CONTINUED</u>			
Corporation for National & Community Service Passed Through Michigan Community Service Commission			
2007 Learn & Serve	94.004	MCSC/SBLS/ F-139/07	\$ 35,117
2006 Learn & Serve		MCSC/ISDLS/ F-12/06	50,000
			<hr/> 85,117
U.S. Department of Education Passed through State Department of Education Drug Free Programs	84.186		
2006-07		0728600506	189,016
2006-07		0628600607	67,882
2007-08		0828600708	198,356
2007-08		0728600708	67,273
			<hr/> 522,527
Passed through State Department of Education and Central Michigan University Title II Part B Math/Science	84.366	052410-MSPF2004	18,046
Passed through State Department of Education Title II Part A Teacher Training	84.367		
2006-07 Regular		0705200607	369
U.S. Department of Health and Human Services Passed through Eaton County 2005/06 Strong Families/Safe Children	93.556	2381712860	5,096
			<hr/>
TOTAL GENERAL FUND EXPENDITURES OF FEDERAL AWARDS			1,756,784
<u>SPECIAL EDUCATION FUND</u>			
U.S. Department of Education Passed through State Department of Education Special Education 94-142 ^{(c)(d)}	84.027		
Flow Through			
2005-07 Regular		0604500506	2,775,612
2007-08 ISD		0804702D16	1,164,000
2006-07 ISD		0704702D16	1,262,500

Restated (Memo Only) Prior Years' Expenditures	Balance July 1, 2007	Cash Receipts/ In Kind Payments	Expenditures	Balance June 30, 2008
	Restated Accrued or (Deferred) Revenue			Accrued or (Deferred) Revenue
\$ 12,937	\$ 12,937	\$ 35,117	\$ 22,180	\$ -0-
50,000	19,796	19,796	-	-0-
62,937	32,733	54,913	22,180	-0-
121,770	33,150	33,150	-	-0-
67,882	39,393	39,393	-	-0-
-	-	118,621	131,849	13,228
-	-	25,846	67,273	41,427
189,652	72,543	217,010	199,122	54,655
12,060	12,060	12,060	-	-0-
369	369	369	-	-0-
5,096	2,345	2,345	-	-0-
704,794	293,574	770,920	735,046	257,700
2,775,612	4,201	4,201	-	-0-
-	-	498,132	643,247	145,115
733,114	282,458	540,074	257,616	-0-

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>SPECIAL EDUCATION FUND - CONTINUED</u>			
U.S. Department of Education			
Passed through State Department of Education - continued.			
Special Education 94-142 ^{(c)(d)}	84.027		
Transition Services			
2006-08 Regular		0704500607	\$ 2,802,536
2006-07		0704400607	4,000
2007-08 State Initiated		080490TS	60,000
2007-09 Regular		0804500708	2,835,047
2006-07		070490TS	70,000
2007-08		080480EOSD	50,000
			<hr/>
			11,023,695
Special Education 94-142 ^{(c)(d)}	84.173		
Preschool Incentive			
2006-07 Regular		0804600708	102,876
Infant/Toddler Early Intervention	84.181		
2007-08 Regular		081340190	127,945
2006-07 Regular		071340190	129,523
			<hr/>
			257,468
Passed through State Department of Education and Grand Valley State University			
Flow Through ^{(c)(d)}	84.027		
2007-08		N/A	35,000
U.S. Department of Health and Human Services			
Passed through State Family Independence Agency			
Medicaid Assistance Program			
Title XIX	93.778		
School Based Services (Transportation) ^(b)			
2007-08		2981894	9,936
Outreach			
2006-07		2981894	66,827
			<hr/>
			76,763
			<hr/>
TOTAL SPECIAL EDUCATION FUND EXPENDITURES OF FEDERAL AWARDS			11,495,802

	Balance July 1, 2007			Balance June 30, 2008
Restated (Memo Only) Prior Years' Expenditures	Restated Accrued or (Deferred) Revenue	Cash Receipts/ In Kind Payments	Expenditures	Accrued or (Deferred) Revenue
\$ 1,911,266	\$ 858,321	\$ 1,749,591	\$ 891,270	\$ -0-
1,128	1,128	1,128	-	-0-
-	-	57,201	60,000	2,799
-	-	1,197,823	2,031,407	833,584
70,000	11,623	11,623	-	-0-
-	-	50,000	50,000	-0-
5,491,120	1,157,731	4,109,773	3,933,540	981,498
-	-	102,876	102,876	-0-
-	-	127,945	127,945	-0-
129,523	42,923	42,923	-	-0-
129,523	42,923	170,868	127,945	-0-
-	-	17,500	35,000	17,500
-	-	9,936	9,936	-0-
-	(25,114)	64,808	66,827	(23,095)
-0-	(25,114)	74,744	76,763	(23,095)
5,620,643	1,175,540	4,475,761	4,276,124	975,903

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>VOCATIONAL EDUCATION FUND</u>			
U.S. Department of Labor			
Passed through Michigan Department of			
Career Development and Capital Area			
Michigan Works			
WIA Adult Program ^(g)	17.258		
2007-08 Ingham		7133	\$ 99,868
2007-08 Eaton		7131	465,753
2006-07 Eaton		6131	360,945
2006-07 Eaton NWLB		6131	30,977
2006-07 Ingham		6133	92,351
			<u>1,049,894</u>
WIA Youth Activities ^(g)	17.259		
2006-07		6134	170,691
2007-08		7134	180,134
			<u>350,825</u>
WIA Dislocated Workers ^(g)	17.260		
2006-07		6136	386,222
2007-08 NWLB		7136	43,040
2007-08		7136	446,522
			<u>875,784</u>
WIA Statewide Programs ^(g)	17.258-17.260		
2007-08		6133-6136	11,900
Employment Service	17.207		
PY07 Employment Services		7135ES	60,479
PY06 Interns		6135ES	69,479
PY07 Interns		7135ES	9,000
			<u>138,958</u>

	Balance July 1, 2007			Balance June 30, 2008
Restated (Memo Only) Prior Years' Expenditures	Restated Accrued or (Deferred) Revenue	Cash Receipts/ In Kind Payments	Expenditures	Accrued or (Deferred) Revenue
\$ -	\$ -	\$ 70,216	\$ 82,070	\$ 11,854
-	-	348,356	434,776	86,420
347,402	72,892	72,892	-	-0-
-	-	30,977	30,977	-0-
84,257	5,925	5,925	-	-0-
431,659	78,817	528,366	547,823	98,274
170,691	19,567	19,567	-	-0-
-	-	153,895	170,332	16,437
170,691	19,567	173,462	170,332	16,437
379,839	64,465	64,465	-	-0-
-	-	43,040	43,040	-0-
-	-	352,555	403,014	50,459
379,839	64,465	460,060	446,054	50,459
-	-	-	10,500	10,500
-	-	52,728	60,479	7,751
69,479	1,849	1,849	-	-0-
-	-	9,000	9,000	-0-
69,479	1,849	63,577	69,479	7,751

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>VOCATIONAL EDUCATION FUND - CONTINUED</u>			
U.S. Department of Health and Human Services Passed through Michigan Department of Career Development and Capital Area Michigan Works WorkFirst Program Temporary Assistance for Needy Families	93.558		
2006/07		7137	\$ 475,934
2007/08		8137	509,844
			<u>985,778</u>
U.S. Department of Education Passed through State Department of Education and Lansing Community College Vocational Education (SLICE)	84.243		
2007-08 Tech-Prep Education		V243A070022	3,875
Passed through State Department of Education and Clinton County Regional Education Service Agency Vocational Education	84.048		
2007-08 Regional Allocation		23000	113,749
2006-07 Regional Allocation		23000	109,304
			<u>223,053</u>
U.S. Department of Agriculture Passed through State Family Independence Agency and Capital Area Michigan Works State Match Program for Food Stamps	10.561		
FY07		7132	108,138
FY08		8132	100,206
			<u>208,344</u>
TOTAL VOCATIONAL EDUCATION FUND EXPENDITURES OF FEDERAL AWARDS			<u>3,848,411</u>
TOTAL FEDERAL AWARDS			<u>\$ 17,100,997</u>

	Balance July 1, 2007			Balance June 30, 2008
Restated (Memo Only) Prior Years' Expenditures	Restated Accrued or (Deferred) Revenue	Cash Receipts/ In Kind Payments	Expenditures	Accrued or (Deferred) Revenue
\$ 385,237	\$ 42,415	\$ 160,311	\$ 117,896	\$ -0-
-	-	312,576	370,157	57,581
385,237	42,415	472,887	488,053	57,581
-	-	3,875	3,875	-0-
-	-	37,699	113,749	76,050
109,304	39,931	39,931	-	-0-
109,304	39,931	77,630	113,749	76,050
72,902	11,993	40,578	28,585	-0-
-	-	58,316	65,680	7,364
72,902	11,993	98,894	94,265	7,364
1,619,111	259,037	1,878,751	1,944,130	324,416
\$ 7,944,548	\$ 1,728,151	\$ 7,125,432	\$ 6,955,300	\$ 1,558,019
		(e)	(a)	

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Eaton Intermediate School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements which are reconciled in Note C.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (g) represent explanations that cross reference to amounts and headings on the Schedule of Expenditures of Federal Awards.

- (a) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports except as noted below. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (b) The reimbursements for these programs are based on a fixed unit rate for each allowable service provided. Expenditures have been reported to the extent of earned revenues.
- (c) Denotes program tested as "major program".
- (d) Denotes programs required to be clustered by the United States Department of Education.
- (e) The amounts reported in this schedule as cash received are in agreement with the cumulative payment amounts in the Grants Section Auditors Report and the "paid during date range" amounts on the Grant Auditor Report combined, less the receipt adjustments for grants that overlapped from prior years as follows:

<u>Grant #</u>	<u>Payment Amounts Per Reports</u>	<u>Less: Prior Year Receipts</u>	<u>Cash Receipts Per Current SEFA</u>
0604702D16	\$ 1,009,911	\$ 1,009,911	\$ -0-
0704702D16	990,730	450,656	540,074
060480EOSD	50,000	50,000	-0-
060490TS	70,000	70,000	-0-
0528600506	86,708	86,708	-0-
0528600405	165,501	165,501	-0-
0502500405	342	342	-0-

- (f) Reported amounts represent the portion of the grant which is considered Federal. The Federal participation of this program is 80%.
- (g) Denotes programs required to be clustered by the United States Department of Labor.

Eaton Intermediate School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

June 30, 2008

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the Federal revenues reported in the June 30, 2008 Financial Statements to the expenditures of the District administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Vocational Education Fund</u>
Revenues from Federal sources per financial statements.	\$ 905,564	\$ 4,532,992	\$ 1,949,601
<u>Less:</u> Medical services portion of the Medicaid School Based Services program which is not subject to the Single Audit Act	-	(256,868)	-
<u>Less:</u> Portion of Federal grants considered State and Local funds	<u>(170,518)</u>	<u>-</u>	<u>(5,471)</u>
Federal expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 735,046</u>	<u>\$ 4,276,124</u>	<u>\$ 1,944,130</u>

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS

Year Ended June 30, 2008

Program Title/ Subrecipient (School District)	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	(Memo Only) Prior Years' Expenditures
Learn & Serve Program 2008 Program Clinton County RESA	94.004	MCSC/SBLS/ F-139/07	\$ 8,530	\$ -0-
Special Education 94-142 Flow Through 2007-08 Regular	84.027			
Charlotte Public Schools		0804500708	\$ 75,000	\$ -
Eaton Rapids Public Schools		0804500708	75,000	-
Potterville Public Schools		0804500708	25,000	-
Grand Ledge Public Schools		0804500708	75,000	-
Maple Valley Schools		0804500708	50,000	-
			300,000	-0-
Start Grant 2007-08 Regular Ingham ISD		0804500708	9,743	-
Least Restrictive Environment 2007-08 Regular	84.027			
Charlotte Public Schools		0804500708	4,450	-
Eaton Rapids Public Schools		0804500708	4,425	-
Potterville Public Schools		0804500708	4,025	-
Grand Ledge Public Schools		0804500708	8,566	-
Maple Valley Schools		0804500708	4,450	-
			25,916	-0-
TOTAL SPECIAL EDUCATION FUND			\$ 335,659	\$ -0-

<u>Balance July 1, 2007</u>	<u>Cash Transferred to Subrecipient</u>	<u>Subrecipient Expenditures</u>	<u>Balance June 30, 2008</u>
<u>Due From/(To) Subrecipient</u>			<u>Due From/(To) Subrecipient</u>
<u>\$ -0-</u>	<u>\$ 8,530</u>	<u>\$ 8,530</u>	<u>\$ -0-</u>
			.
\$ -	\$ 75,000	\$ 75,000	\$ -0-
-	75,000	75,000	-0-
-	25,000	25,000	-0-
-	75,000	75,000	-0-
-	50,000	50,000	-0-
-0-	300,000	300,000	-0-
-	9,743	9,743	-0-
-	4,450	4,450	-0-
-	4,425	4,425	-0-
-	4,025	4,025	-0-
-	8,566	8,566	-0-
-	4,450	4,450	-0-
-0-	25,916	25,916	-0-
<u>\$ -0-</u>	<u>\$ 335,659</u>	<u>\$ 335,659</u>	<u>\$ -0-</u>

Eaton Intermediate School District

SCHEDULE OF BUDGETED, REPORTED, AND COMPILED AMOUNTS - PREVENTION

MDCH/BSAS GRANTS

For the Program Year Ended September 30, 2007

	<u>Eaton Grant</u>			Variance Between Reported and Compiled
	<u>Final Budget</u>	<u>Reported</u>	<u>Compiled</u>	
Expenditures				
Salaries and wages	\$ 98,936	\$ 104,259	\$ 104,259	\$ -0-
Fringe benefits	40,008	38,194	38,194	-0-
Travel	1,820	1,562	1,562	-0-
Supplies and materials	2,688	2,585	2,585	-0-
Sub-Contracts	31,403	28,255	28,255	-0-
Other	<u>15,730</u>	<u>15,730</u>	<u>15,730</u>	<u>-0-</u>
TOTAL EXPENDITURES	<u>\$ 190,585</u>	<u>\$ 190,585</u>	<u>\$ 190,585</u>	<u>\$ -0-</u>
Funding sources				
MDCH/BSAS	<u>\$ 190,585</u>	<u>\$ 190,585</u>	<u>\$ 190,585</u>	<u>\$ -0-</u>

	<u>Eaton Methamphetamine Grant</u>			Variance Between Reported and Compiled
	<u>Final Budget</u>	<u>Reported</u>	<u>Compiled</u>	
Expenditures				
Travel	\$ -	\$ 2,045	\$ 2,045	\$ -0-
Supplies and materials	<u>-</u>	<u>955</u>	<u>955</u>	<u>-0-</u>
TOTAL EXPENDITURES	<u>\$ -0-</u>	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ -0-</u>
Funding sources				
MDCH/BSAS	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ -0-</u>

Eaton Intermediate School District

SCHEDULE OF BUDGETED, REPORTED, AND COMPILED AMOUNTS - PREVENTION

MDCH/BSAS GRANTS

For the Program Year Ended September 30, 2007

Ingham Grant

	<u>Final Budget</u>	<u>Reported</u>	<u>Compiled</u>	<u>Variance Between Reported and Compiled</u>
Expenditures				
Salaries and wages	\$ 110,061	\$ 109,473	\$ 109,473	\$ -0-
Fringe benefits	44,201	44,615	44,615	-0-
Travel	1,636	1,676	1,676	-0-
Supplies and materials	1,514	1,676	1,676	-0-
Sub-Contracts	14,900	14,872	14,872	-0-
Other	<u>17,060</u>	<u>17,060</u>	<u>17,060</u>	<u>-0-</u>
TOTAL EXPENDITURES	<u>\$ 189,372</u>	<u>\$ 189,372</u>	<u>\$ 189,372</u>	<u>\$ -0-</u>
Funding sources				
MDCH/BSAS	<u>\$ 189,372</u>	<u>\$ 189,372</u>	<u>\$ 189,372</u>	<u>\$ -0-</u>

Ingham Methamphetamine Grant

	<u>Final Budget</u>	<u>Reported</u>	<u>Compiled</u>	<u>Variance Between Reported and Compiled</u>
Expenditures				
Travel	\$ -	\$ 746	\$ 746	\$ -0-
Supplies and materials	<u>-</u>	<u>2,254</u>	<u>2,254</u>	<u>-0-</u>
TOTAL EXPENDITURES	<u>\$ -0-</u>	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ -0-</u>
Funding sources				
MDCH/BSAS	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ -0-</u>

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Eaton Intermediate School District
Charlotte, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eaton Intermediate School District as of and for the year ended June 30, 2008, which collectively comprise Eaton Intermediate School District's basic financial statements and have issued our report thereon dated November 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Eaton Intermediate School District financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Eaton Intermediate School District's internal control over financial reporting.

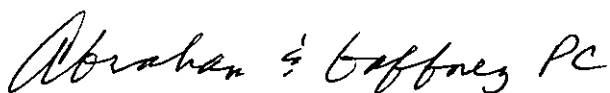
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as 2008-1.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the administration, the Board of Education of Eaton Intermediate School District, others within the District, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Abraham & Gaffney PC".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 10, 2008

Eaton Intermediate School District

SCHEDULE OF FINDINGS

Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported by Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

2008-1 Unfavorable Budget Variances

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for activities in the General Fund, the Special Education Fund, and the Vocational Education Fund.

Criteria: The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Eaton Intermediate School District

SCHEDULE OF FINDINGS

Year Ended June 30, 2008

Section II - Financial Statement Findings - continued

2008-1 Unfavorable Budget Variances - continued

Effect: Having an unfavorable budget variance as described above, the District is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: The District is currently reviewing procedures in this area to ensure that appropriate budget amendments are made in a timely manner.

Section III - Federal Award Findings and Questioned Costs

None

Eaton Intermediate School District

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2008

FINDINGS/NONCOMPLIANCE

Control Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

2007-1 Unfavorable Budget Variances

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund, Special Education Fund, and Vocational Education Fund. The District's budget was not amended as it became apparent that expenditures would exceed the amounts appropriated for various activities of the General Fund, Special Education Fund, and Vocational Education Fund.

Resolution: This issue is evaluated each year. There were some budget overages in the current year as noted in the current findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.